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ABSTRACT

In 1979 the Congress and the administration will consider legislation to extend and revise the Higher Education Act and, in the process, will review the structure of the student-aid system. Several alternatives are likely to be considered, but a fourth is proposed here: a major overhaul of the existing package of programs to make them more equitable in their impact and more sound in their administration at about the same cost to federal and state governments combined. This alternative considers the significant accomplishments of the federal student-aid system to date, and suggests specific improvements in four areas: (1) the introduction of an explicit self-help component (through earnings and borrowing) by the student himself; (2) a loan system that makes loans more easily and widely available and at much less risk of heavy default rates; (3) additional assurances of equality of opportunity for all young persons to obtain a college education if they wish; and (4) a greater range of choice for students and potential students. Financial and statistical data are provided as illustrations. (Author/MSE)

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NEXT STEPS FOR THE 1980s IN STUDENT FINANCIAL AID

A Fourth Alternative

Comments and Recommendations by the Carnegie Council on Policy Studies in Higher Education

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NEXT STEPS FOR THE 1980s IN STUDENT FINANCIAL AID
A Fourth Alternative
The Carnegie Council on Policy Studies in Higher Education

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Contents

Preface xi

1. **General Comments: Doing More with No More Money** 1

   Where we now stand · The fourth alternative · An explicit self-help component · A better long-term loan system · More equality of opportunity for low-income students · A greater range of choice for students · Selected impacts of Carnegie Council recommendations

2. **Specific Recommendations** 26

   A self-help requirement · Expanding the role of the College Work-Study program · Meeting the problems of the independent student · Equitable provision for noninstructional costs · Reconciling subsistence needs and self-help expectations · Providing for exceptional cases · Removing the 50-percent-of-cost limitation · Preventing erosion of need-based student aid · Need for a uniform parental contribution schedule · Limiting the duration of student aid · The SSIG program · The SEOG program · An equitable and accessible loan program · Provision for part-time students (including

adults) • Simplification • Increasing emphasis on student aid packaging • Social security benefits for students • Food stamps for college students • Summing up: Who does what?

Glossary 63

References 67

An extended version of this report is also available. In addition to the sections listed above, it contains seven sections describing the current system in operation (growth in student aid funds, need analysis, packaging of student aid, recipients of aid, impact of student aid on enrollments, impact of aid on institutions, and the changing burden of financing higher education); and nine sections concerning opportunities for improvements (clarifying the role of student earnings, strengthening the need-based system, expanding student choice, improving the student loan system, aiding adult, part-time and independent students, enhancing program coordination, increasing integrity and simplicity, calculating the necessary costs of an adequate system, and assuring commitment to the most essential goals). Copies of the extended report may be obtained from Jossey-Bass, San Francisco, for the United States and Possessions, and for Canada, Australia, New Zealand, and Japan. Copies for the rest of the world available from Jossey-Bass, London.

Preface

Financial aid to students for the sake of equalizing opportunity for access to higher education has been a long-time concern of the Carnegie Council on Policy Studies in Higher Education and of the Carnegie Commission on Higher Education before it.[1]

The Congress and the federal administration are preparing for a reexamination of the financial aid system in advance of the expected legislation on the Higher Education Amendments of 1979; or, possibly, of 1980. This report is intended to be helpful to this reexamination and to the prior consideration of policy options by the higher education community.

The Council expresses its appreciation to Margaret S. Gordon and to Martin Kramer for their assistance.

[1]See Carnegie Commission on Higher Education, *Quality and Equality: New Levels of Federal Responsibility for Higher Education* (1968); *Quality and Equality: Revised Recommendations–New Levels of Federal Responsibility for Higher Education* (1970); *Institutional Aid: Federal Support to Colleges and Universities* (1972); and *Higher Education: Who Pays? Who Benefits? Who Should Pay?* (1973). See also Carnegie Council on Policy Studies in Higher Education, *The Federal Role in Postsecondary Education: Unfinished Business 1975-1980* (1975); The Carnegie Foundation for the Advancement of Teaching, *The States and Higher Education: A Proud Past and a Vital Future* (1976); and Carnegie Council on Policy Studies in Higher Education, *The States and Private Higher Education: Problems and Policies in a New Era* (1977).

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General Comments: Doing More with No More Money

In 1979 the Congress and the administration will consider legislation to extend and revise the Higher Education Act, and, in the process, will review the structure of the student aid system. These considerations may extend into 1980.

At least three alternatives are likely to be discussed. We add, in this report, a fourth.

The three likely alternatives are:

1. A simple extension of existing legislation with no, or only minor, changes
2. A further expansion of the "middle-income" thrust that animated the 1978 legislation, carrying aid programs in larger amounts and to higher levels of family income to students whose families are located in the upper half of the income range
3. A renewed effort to add (and perhaps eventually to substitute) a program of cost-of-education tax credits

The additional alternative we strongly recommend involves:

4. A major overhaul of the existing package of programs to make them more equitable in their impact and more sound

in their administration—within the confines of about the same cost to the federal and state governments combined.

The surrounding situation for the new debate over student aid includes, among many other important elements, the following:

A federal government under contrary pressures:

- To hold down expenditures, including in the student aid area where they have increased substantially—by 600 percent in the past 10 years in money terms and 300 percent in constant dollars—in recent years
- To respond, simultaneously, to the continuing demands of "middle-income" parents for selective relief, which strongly affected the 1978 adjustments via additional student aid or via tax credits

State governments highly conscious of Proposition 13 sentiment in their districts and hesitant about raising expenditures for higher education and for other social programs.

Colleges and universities fearful of the future under the additive pressures of potentially declining enrollments, continuing inflation that hits them very hard, and the growing hesitancy of many states to augment their support. A corollary of this is an intensified conflict between public and private, and two-year and four-year institutions over their respective shares of public aid.

Under these circumstances, what, of a constructive nature might best be done?

Where We Now Stand

We would like to note very briefly in advance some of the accomplishments of the student aid program to date upon which we seek to build:

1. Women and members of minority groups from families with incomes below the median have increased their enrollment rates substantially since the introduction of the Basic Grant program in 1972—by 22 percent to the academic year 1976-77, from an absolute rate of 12.4 percent to a rate of 15.1 percent, involving 240,000 persons (this figure may rise to 300,000 by 1979-80 on the basis of our estimates). Some of this increase may also be ascribed to affirmative action, to the spread of low-cost community colleges, to inadequate job opportunities for young persons in a period of depression and recession, to the availability of educational aid to veterans, and to the general temper of the times when more young people have sought to widen their range of opportunities and have been encouraged to do so by their families. Yet much of the 22 percent increase in rates of enrollment can be credited to the greatly increased availability of student aid. About 12 percent of the expenditures on Basic Grants in 1976-77 may be attributed to the cost of this expansion of opportunity. The percentage is less than 12 when calculated against all student aid programs, and also when it is calculated on the basis of Basic Grants alone after the 1978 changes that targeted more money on the upper-middle-income group;[1] almost certainly less than 10 percent in all. It should be noted, parenthetically, that attendance rates of white males have gone down during this period, chiefly because of the end of the military draft; but they might have gone down even more without the availability of additional student aid.
2. Public student aid funds have enabled many private colleges with limited resources of their own to recruit and serve more low-income students. Enrollments as a whole have been

[1]We define *upper-middle income* as the second highest quartile in the income range (see Table 5 in the Glossary). In popular parlance, this has been *middle income*. The 1978 changes added students from this income range (roughly 22 percent of all students) to those from the lower half of the income range (roughly 27 percent of all students) as eligible for need-based federal aid.

somewhat higher than they otherwise might have been. Induced enrollments for men and women and for majority and minority students combined have probably amounted to about 5 percent more than they otherwise might have been. Individual institutions have benefited in enrollment gains to quite diverse degrees—some substantially, some little or not at all.

3. Parents have been relieved of many sacrifices that sending a child to college traditionally entails for all but the wealthy. This reduction of the burden on parents was greatly accelerated by the 1978 amendments. The bulk of student aid funds, now totaling about $6 billion (not counting veterans' educational benefits) and certainly more than half and possibly two thirds, has gone to reduce the burden on parents whose children, whether there had been any new student aid programs or not, would have gone to college. Before the 1978 amendments this parental relief was concentrated on the lower half of the income range; now it is concentrated on the lower three quarters. More of the cost of college attendance, in part because of the new student aid programs, is now borne by public agencies and less by individuals. The family share of the total costs of higher education has fallen from about 40 to 30 percent over the past decade; the public share has risen from 50 to 60 percent; and the philanthropic share has remained even at about 10 percent. Student aid is now 90 percent from public sources, as compared with 65 percent ten years ago; it was nearly zero percent from public sources before World War II.
4. We find no evidence that colleges generally have raised tuition levels above what they otherwise would have been because of the additional student aid, although some have undoubtedly done so. Tuition levels have risen at about their historic rates, including adjustment for inflation; not faster.
5. We find no conclusive evidence that students work less than before—although inconclusive evidence indicates there may have been a drop over the past decade for students from lower-income families; but the average standard of living of students has increased as it has for the population as a whole.

The Fourth Alternative

We propose an alternative that has the following components:

- No increase in the total amount spent on student aid by the federal government
- A redistribution of funds in the direction of what we consider to be the greater needs
- A better coordination of federal and state programs, with greater incentives for increased state expenditures
- Changes that will add to the integrity, and to the simplicity and flexibility, of the overall program.

We will return to these four considerations at the end of this section.

We see the following specific opportunities for improvement within the context of political and economic realities:

- The introduction of an explicit self-help component (through earnings but also through borrowing) by the students themselves
- A loan system that makes loans more easily and widely available and at much less risk of heavy default rates
- Additional assurances of equality of opportunity for all young persons to obtain a college education if they wish—this has been and continues to be our first priority
- A greater range of choice for students and potential students

Each of these opportunities for improvement will be discussed, in order, below. They are set forth as specific recommendations in Section 2.

An Explicit Self-Help Component

We propose that the basic building block of student financial support for postsecondary education be a substantial self-help component. We do this for the following reasons:

- Family income is no longer a sufficient indication of need, both because of the high and increasing proportion of stu-

dents listing themselves as "independent," some of whom are really independent and some of whom find this description a way to maximize public support; and because aid is now given to students whose families are in the upper half of the income range and who would go to college whether public aid were available or not—they clearly do not have "need" so critical that, were this need unmet, they could not attend any college. Family income levels distinguish students less and less by degree of real need for available student aid funds.

- Self-help, in any event, is intrinsically a better indication of both a student's need for support and of his or her determination to secure a higher education. What effort is the student willing to make to finance his or her further education? Such self-help is in the long-standing American tradition of self-reliance, and it gives assurance to the public at large that governmental aid has been merited by individual effort and not just by manipulation of the rules or by political pressure. Additionally, we believe that an explicit self-help component is an important aspect of developing in students a sense of responsibility for their own advancement and of encouraging a more acutely sensed necessity for prudent use of time and money.

We suggest that the basic self-help component for lower-division students be $600 and for upper-division students be $1,000 per year by 1982-83. This would require 180 hours of work per year (or some combination of work and loans) at the lower-division level. This could be accomplished by a little more than half a day (5 hours) a week during the academic year at the minimum wage rate that is scheduled to go to $3.35 per hour in 1981; or by a little more than two months (9 weeks) of work in the summer, including time to earn subsistence expenses for the summer months; or by some combination of the two. At the upper-division level, this would amount to just over a day (8.33 hours) a week during the academic year; or less than 3 months (12 weeks) in the summer; or some combination of the two. We note that upper-division students, in particular, are likely to be paid above the minimum rate, thus reducing the number of required hours.

We consider these amounts of work quite reasonable. About 40 percent of all students in 1975-76 had summer employment and earned an average of about $700; and 40 percent had termtime employment and earned about $1,200. The proportion of all students who have both or only one of these sources of income is unknown; but we estimate that perhaps two thirds of all students work either in summer or during termtime or both. Also, in the 1980s, with a substantially reduced age cohort, job opportunities for young persons should be greatly improved.

We are convinced that reasonable amounts of work, perhaps to a maximum of 20 hours a week, are not only possible but also desirable. It has been found that work during termtime up to 20 hours a week is positively correlated with persistence of students in school. Work builds social ties to the campus and to the community. It also provides work experience for the employment record of students and as a source of recommendations.

We also suggest an additional $200 self-help expectation per student prior to receipt of an allowance under the State Student Incentive Grant (SSIG) program.

In lieu of work, students may wish to substitute loans in whole or in part.

We note that, in the longer run, as more and more students become "independent," and as levels of eligibility for aid creep higher and higher in the family income range, as they have done so dramatically over the past decade, public policy will be driven either toward across-the-board aid to all students, which would be both very expensive and very unnecessary, or to some explicit reliance on self-help. We strongly prefer the latter of these two courses of development. Any self-help component will, of course, need to be adjusted over time to rising levels of earnings and of costs of attending college. Experience with it should be carefully monitored to be sure that it is not interfering with academic endeavors.

A Better Long-Term Loan System

We propose, once again, the creation of a National Student Loan Bank. This bank would be largely self-sufficient. It would

make loans available toward meeting college costs to students without any proof of their being needy, with payments possible over an extended period of time. Under our proposal, loans would be used mainly under these three circumstances: a student could work but prefers not to do so; parents could pay, but either do not wish to do so or the student does not wish to call upon them to do so; or the student wants to attend a higher-cost institution. Loans would not be a question of necessity; they would, rather, add to the range of choices available.

We consider current default rates under the present program to be quite beyond reason, although we applaud the progress being made by the Office of Education in reducing them. Some of the specific default rates have been scandalous.

More Equality of Opportunity for Low-Income Students

Low-income students can now receive, through the Basic Grant programs, not over one half of the cost of attending college. The 50 percent rule was strictly a political compromise. We suggest abandoning this rule and substituting the self-help component. Under our proposed formula, the self-help component would result in a maximum Basic Grant award equal to about 70 percent of full cost for lower-division students and about 55 percent for upper-division students at a comparatively low-cost institution. Thus, students in full need would be guaranteed, as was the intent of the original legislation, the minimum financial capability of attending some college through the combination of self-help and Basic Grants. We consider this to be the most urgent priority.

Not all students can easily find work on campus. We suggest a major expansion of the College Work-Study (CWS) program. It will help students meet the self-help component. It also helps institutions meet their costs of operation. To serve its purposes, CWS should give some preference to students attending colleges in high unemployment areas and in rural areas, and to women students—many of whom have a harder time than men finding jobs and, when they do so, only at lower rates of pay. The average earnings from CWS for those with CWS support is now $650 a year and will be $800 a year in 1981 if average pay rates rise with the increase in the federal minimum wage.

We also propose an override to each institution of 10 percent of the amount of Basic Grants received on campus to take care of special situations, at the discretion of the institution, provided the money is spent only for the general purposes intended. This would help take care (1) of handicapped persons who cannot work, (2) of those students who can work but cannot find any or adequate employment, (3) of those who can work but must spend extra class time making up academic deficiencies, (4) of those who are in real need but cannot get a Basic Grant because they are registered for less than half-time study, (5) of those who have minor dependents without other adequate sources of support, and (6) of those below the age of 18 who may not be required to meet the self-help expectation. In each of these situations, individual students could receive up to 100 percent of the Basic Grant allowance. This would allow for situations where students, for reasons beyond their control, cannot meet in full or even at all the self-help component or where they otherwise have special needs. We propose that the maximum Basic Grant rise from the current $1,800 to $2,400 by 1982-83.

These several provisions, along with other changes we suggest, would meet the promise made in 1972 that no young person should be denied the opportunity to attend college for reasons of financial deprivation alone. These changes are set forth at the end of this section.

A Greater Range of Choice for Students

We propose:

- The retention of the Supplemental Educational Opportunity Grant program. The SEOG program provides flexibility in relation to tuition costs similar to that which will be provided by the special 10 percent supplement to Basic Grants according to our suggestion.
- A very major expansion of the State Student Incentive Grant program, with added assurances that federal matching funds be used for students in need.
- A new provision, as part of SSIG, that will encourage the portability of student grants.

- A much improved student loan system, as set forth above.

Each of these, and all of them together, will increase the range of choice of students to attend higher-cost public and private institutions and to go to institutions outside their states of residence.

Additionally, we suggest ways in which part-time students, including adults, can be aided to attend college. In particular, the supplemental 10 percent allowance in the Basic Grant program can help students registered for less than half time.

Earlier we mentioned four general components of our proposed fourth alternative. We should now like to return to them:

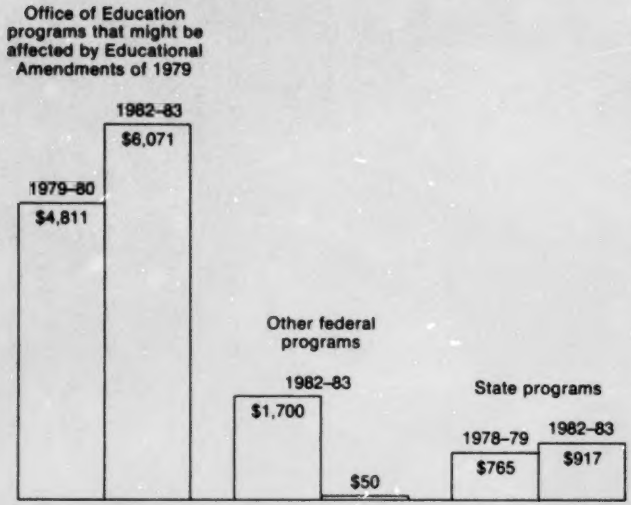
- Our program would not increase the total amount spent on student aid programs by the federal government and by the states. The Office of Education (OE) "package" would increase with more money for the Basic Grant, CWS, and SSIG programs, partially offset by less for loan programs. We note that Veterans' educational benefits will go down as a matter of course (we estimate a reduction of $1,100 million from 1979-80 to 1982-83; from $1,900 million to $800 million); but we do not think it realistic that this money will be recaptured for other student aid programs—the Department of Defense will probably absorb the reduction into the financing of its programs. However, we propose elimination of Social Security benefits for students and also food stamps, on the grounds that our program will make them unnecessary. These reductions should be calculated against the increase in the OE "package." The SSIG program we propose would cost the states substantial additional funds. This should also be taken into account, and when it is, the total amount spent on student aid by the federal and state governments together will remain roughly what it is now in constant dollars, assuming all the states take full advantage of federal matching funds—it is quite possible that some of them will choose not to do so. Over a period of time, to the extent that enrollments decline in the 1980s and 1990s, there may be expected to be some overall decline in the amounts of student aid in constant dol-

lars. The overall decline in the numbers of young persons, however, will not bring much of a decline in young persons from lower-income families, whose members are rising proportionately within the total youth group.

- The redistribution we suggest would aid low-income students (our first priority) and enhance students' choice (our second priority) in selecting an institution. The latter of these, in particular, will aid in creating fairer competition among institutions (our third priority) based more than now on considerations of the value to students of their academic programs.
- Our several proposals will lead to better coordination of federal and state programs, with the federal government primarily concerned with the subsistence costs of attending college, and the states with adjustments required by their many different combinations of public and private institutions and of tuition policies among public institutions.
- In several ways the overall program would gain: in integrity—by lower default rates on loans, by less tendency artificially to manufacture "independent" status for students, and by the requirement of explicit self-help as a basis for aid; and in simplicity and flexibility by eliminating a need requirement for loans and by adding a 10 percent adjustment to Basic Grants which will both simplify the rules for the distribution of the funds available without this override and more precisely meet individual needs. The SEOG program, which is now in operation and which we recommend be continued, also provides for flexibility in use of funds at the campus level. We also suggest that consideration be given to a "bank-account" approach to student aid so that students could draw only so much of it without exhausting their accounts and becoming no longer eligible; this would encourage students to plan any withdrawals from their accounts more carefully.

We advance this fourth alternative as costing the federal government no more money (see Figure 1 and Table 1) but greatly improving the overall program as compared with the first alternative (extension of existing legislation); as more likely, in the current economic and political climate, than the

Figure 1. Estimated expenditures under existing federal and state student aid programs, 1979-80, and under Carnegie Council recommendations, 1982-83 (in millions of constant—1979—dollars, excluding veterans' educational benefits)[a]



Suggested changes to 1982-83	
Office of Education programs that might be affected by Educational Amendments of 1979	
Basic Grants	
Regular program	+$685
Special 10 percent override	+ 324
Supplementary Educational Opportunity Grants	0
College Work-Study program	+ 350
Guaranteed Student Loan program	− 660
National Direct Student Loan program	− 329
State Student Incentive Grant program	+ 840
National Student Loan Bank	+ 50
Total	+ 1,260
Other federal programs	
Social security benefits	− 1,550
Food stamp program	− 100
Total	− 1,650
State programs	+ 152
Grand Total	− 238

[a]Estimates are based on projected 1979-80 enrollment (by family income and cost of institutions); actual enrollment in 1982-83 is likely to differ little in total numbers from that in 1979-80.

Source: Table 1.

Table 1. Estimated expenditures under existing federal and state student aid programs, 1979-80, and under Carnegie Council recommendations, 1982-83 (in millions of constant—1979—dollars, excluding veterans' educational benefits)

Program	*1979-80*	*1982-83*	*Change, 1979-80 to 1982-83*
Office of Education programs that might be affected by Educational Amendments of 1979			
Basic Grants			
Regular program	$2,555[a]	$3,240	+$685
Special 10 percent override	—	324	+ 324
Supplementary Educational Opportunity Grants	340	340	0
College Work-Study program	550	900	+ 350
Guaranteed Student Loan program	960	300[b]	− 660
National Direct Student Loan program	329	0	− 329
State Student Incentive Grant program	77	917	+ 840
National Student Loan Bank	—	50	+ 50
Total	4,811	6,071	+1,260
Other federal programs			
Social security benefits for college students	1,600[c]	50[d]	−1,550
Food Stamp program	100	0	− 100
Total	1,700	50	−1,650
Total federal programs	6,511	6,121	− 390
State programs	(1978-79)		
States that would need to increase appropriations			(+367)
States that could reduce appropriations			(−215)
Total state programs	765	917	+ 152
Grand total	7,276	7,038	− 238

[a]Administration budget figure for 1979-80 plus the estimated cost of raising the family size offset for independent students without dependents.

[b]There would be a residual cost of several hundred million dollars in the Guaranteed Student Loan program for interest subsidies and defaults under outstanding loans.

[c]The estimated cost of $1,600 million to the Old Age Survivor Disability Insurance (OASDI) trust fund in 1982-83 (in 1979 dollars) if social security benefits for college students are continued.

[d]The estimated additional cost to other student aid programs if social security benefits for college students are discontinued. The additional cost would be small because a large proportion of social security beneficiaries receives Basic Grants now, and many more would be eligible under the Middle-Income Student Assistance Act of 1978.

Source: Carnegie Council estimates.

second alternative (a further expansion of the "middle income" thrust) and, in any event, we see no strong argument for such a further thrust either in a deteriorating ability of "middle-income" families to support children in college (see Figure 2), or in traditional tests of adequacy and fairness of parental contributions; and as clearly preferable to the third alternative, which calls for the introduction of tax credits, which are regressive, very costly to the national budget, and of comparatively little help to individual families because of their widespread distribution.

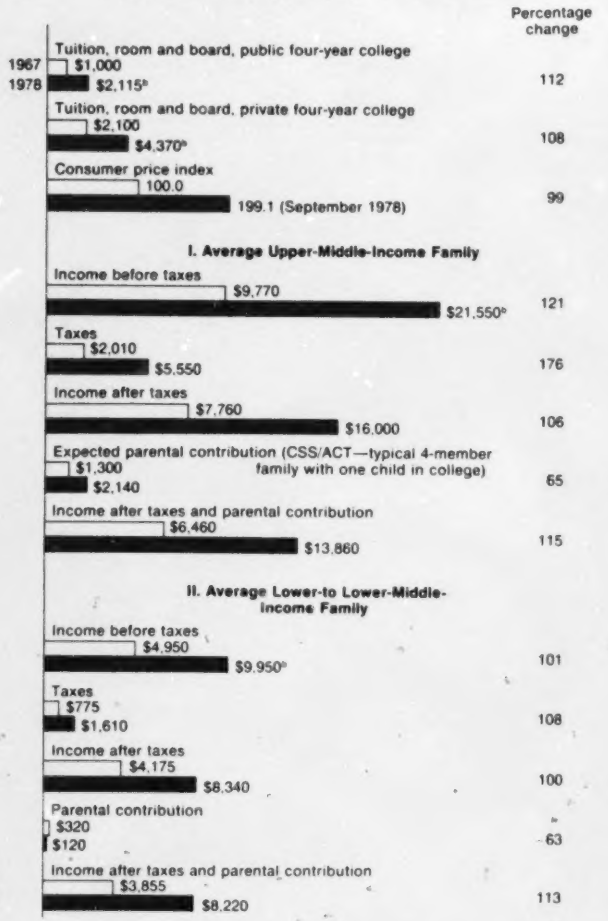
We recognize that our program will have differing impacts on different types of students and institutions.

Selected Impacts of Carnegie Council Recommendations

Students. There will be improved benefits for low-income students if the suggestions of the Council are accepted. They include:

1. *Much more adequate provision for noninstructional costs in Basic Grant programs.* Under Carnegie Council proposals, the lower-division student can receive up to $1,800 for noninstructional costs, or up to $2,400 under special circumstances. Present regulations limit provision for noninstructional costs for a commuting student to $1,500, and this amount can be severely reduced under the 50-percent-of-cost limitation (see the illustrative cases in Table 2). Even the upper-division student, who would normally receive only a $1,400 maximum grant under our proposals, can now sometimes receive considerably less than this under the 50-percent-of-cost limitation.
2. *Substantially larger Basic Grants for students from families with incomes in the $6,000 to $18,000 range,* as a result of the shift to the schedule of the College Scholarship Service and the American College Testing (CSS/ACT) program (see Figure 3).
3. *A more equitable self-help provision that does not penalize the lower-income student attending a low-cost college.* Our proposed self-help expectation would, under normal circumstances, treat all students alike, whereas the existing 50-percent-of-cost limitation discriminates against lower-income students attending low-cost colleges.

Figure 2. Changes in family income before and after taxes, expected parental contribution, college charges, and consumer price index, for average upper-middle-income family and for average lower- to lower-middle-income family,[a] 1967 to 1978



[a]The average middle-upper-income family is the median family in the next-to-top family income quartile, while the average lower- to lower-middle-income family is a family at the top of the lowest family income quartile. Quartile boundaries are computed from data for all families (see Table 5).

[b]Estimated by projecting on the basis of changes in the years from 1972 to 1977.

Sources: Carnegie Council calculations based on data available from U.S. National Center for Education Statistics; U.S. Bureau of Labor Statistics; U.S. Bureau of the Census; Internal Revenue Service; Social Security Administration; and College Scholarship Service of the College Entrance Examination Board.

Table 2. Comparison of sources of support for typical students under existing policies and Carnegie Council recommendations, 1982-83 (in 1979 dollars)

	Existing policies	*Carnegie Council recommendations*	*Educational costs*	
1. Lower-income student attending low-cost community college as commuter. Family income = $6,000.				
Basic Grant	$ 850	$1,800	Tuition	$ 200
			Other	2,400
			Total	2,600
Parental contribution	0	0		
Tuition grant (only in certain states at present)	200	0		
Explicit self-help expectation	500[a]	800		
Residual to be met from other sources[b]	1,050 to 1,750	0		
2. Lower-income student attending moderate-cost public four-year college as resident, lower division. Family income = $6,000.				
Basic Grant	$1,575	$1,800	Tuition	$ 650
			Other	2,500
			Total	3,150
Parental contribution	0	0		
Tuition grant (only certain states at present)	650	400		
Explicit self-help expectation	500[a]	850		
Residual to be met from other sources[b]	425 to 1,575	100		
3. Lower-income student attending high-cost private four-year college as resident, lower-division. Family income = $6,000.[c]				
Basic Grant	$1,800	$1,800	Tuition	$3,820
			Other	2,900
			Total	6,720
Parental contribution	0	0		
Tuition grant (only certain states at present)	1,500	1,500		

Table 2

	Existing policies	*Carnegie Council recommendations*	*Educational costs*	
Explicit self-help expectation	$ 500[a]	$ 850		
Residual to be met from other sources[b]	2,920 to 4,920	2,570		
4. Lower-middle-income student attending low-cost community college as commuter. Family income = $15,000.				
Basic Grant	$ 850	$1,256	Tuition	$ 200
			Other	2,400
			Total	2,600
Parental contribution	717	544		
Tuition grant (only in certain states at present)	200	0		
Explicit self-help expectation	500[a]	800		
Residual to be met from other sources[b]	333 to 1,033	0		
5. Lower-middle-income student attending moderate-cost public four-year college as resident, lower division. Family income = $15,000.				
Basic Grant	$1,083	$1,256	Tuition	$ 650
			Other	2,500
			Total	3,150
Parental contribution	717	544		
Tuition grant (only in certain states at present)	650	400		
Explicit self-help expectation	500[a]	850		
Residual to be met from other sources[b]	200 to 1,350	100		
6. Lower-middle-income student attending high-cost private four-year college as resident, lower division. Family income = $15,000.				
Basic Grant	$1,083	$1,256	Tuition	$3,820
			Other	2,900
			Total	6,720

(continued on next page)

Table 2 *(continued)*

	Existing policies	*Carnegie Council recommendations*	*Educational costs*	
Parental contribution	$ 717	$ 544		
Tuition grant (only in certain states at present)	1,500	1,500		
Explicit self-help expectation	500[a]	850		
Residual to be met from other sources[b]	2,920 to 4,920	2,570		
7. Upper-middle-income student attending low-cost community college as commuter. Family income = $23,000.				
Basic Grant	$ 229	$ 229	Tuition	$ 200
			Other	2,400
			Total	2,600
Parental contribution	1,571	1,571		
Tuition grant (only in certain states at present)	200	0		
Explicit self-help expectation	500[a]	800		
Residual to be met from other sources[b]	100 to 800	0		
8. Upper-middle-income student attending moderate-cost public four-year college as resident, lower-division. Family income = $23,000.				
Basic Grant	$ 229	$ 229	Tuition	$ 650
			Other	2,500
			Total	3,150
Parental contribution	1,571	1,571		
Tuition grant (only in certain states at present)	650	400		
Explicit self-help expectation	500[a]	850		
Residual to be met from other sources[b]	200 to 1,350	100		

Table 2

	Existing policies	*Carnegie Council recommendations*	*Educational costs*	
9. Upper-middle-income student attending high-cost private four-year college as resident, lower-division. Family income = $23,000.				
Basic Grant	$ 229	$ 229	Tuition	$3,820
			Other	2,900
			Total	6,720
Parental contribution	1,571	1,571		
Tuition grant (only in certain states at present)	1,500	1,500		
Explicit self-help expectation	500[a]	850		
Residual to be met from other sources[b]	2,920 to 4,920	2,570		
10. Upper-income student attending low-cost community college as commuter. Family income = $35,000.				
Basic Grant	0	0	Tuition	$ 200
			Other	2,400
			Total	2,600
Parental contribution	$2,600	$2,600		
Tuition grant	0	0		
Explicit self-help expectation[d]	0	0		
Residual to be met from other sources	0	0		
11. Upper-income student attending moderate-cost public four-year college as resident, lower-division. Family income = $35,000.				
Basic Grant	0	0	Tuition	$ 650
			Other	2,500
			Total	3,150
Parental contribution	$3,150	$3,150		
Tuition grant	0	0		
Explicit self-help expectation[d]	0	0		
Residual to be met from other sources	0	0		

(continued on next page)

Table 2 *(continued)*

	Existing policies	*Carnegie Council recommendations*	*Educational costs*	
12. Upper-income student attending high-cost private four-year college as resident, lower-division. Family income = $35,000.				
Basic Grant	0	0	Tuition	$3,820
			Other	2,900
			Total	6,720
Parental contribution	$5,680[c]	$5,680		
Tuition grant	0	0		
Explicit self-help expectation[d]	0	0		
Residual to be met from other sources[c]	1,040	1,040		

[a]Assumes CSS/ACT schedule is used in determining eligibility for state tuition grant; this schedule calls for about $500 in savings from summer earnings.

[b]Other sources may be College Work-Study award or SEOG grant (for needy students), borrowing, additional earnings, additional parental contribution, college grant, or miscellaneous.

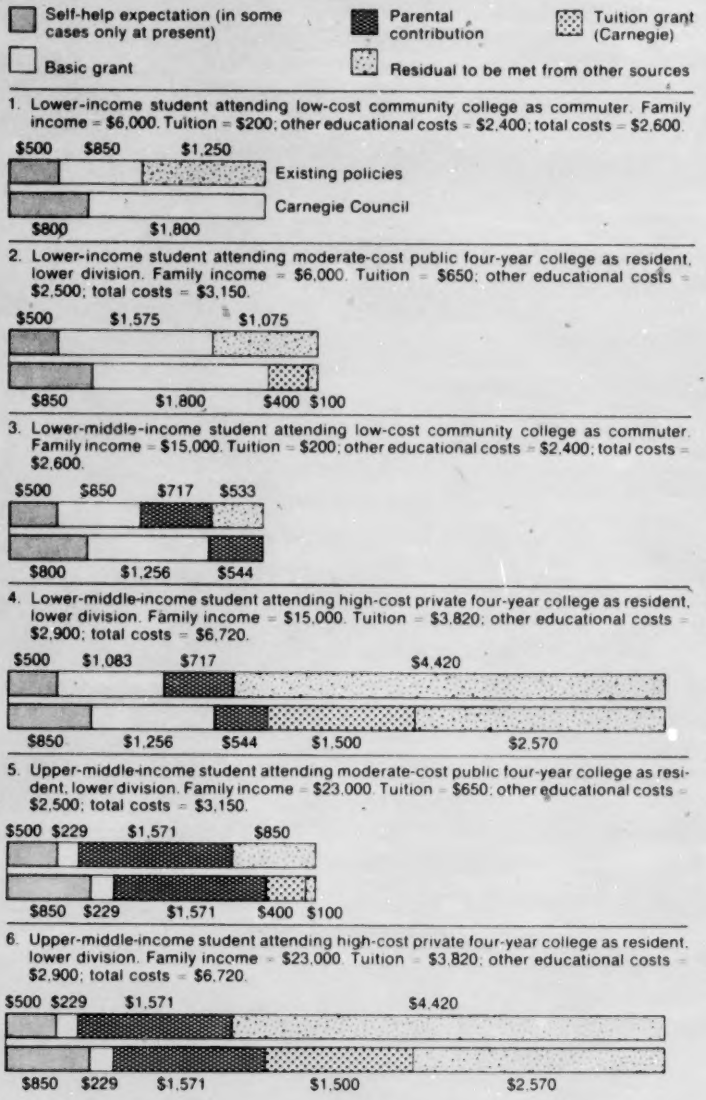
[c]Assumes use of CSS/ACT schedule by student aid officer.

[d]There is no explicit self-help expectation, because the student is assumed not to be eligible for student aid from publicly financed sources; he or she might qualify for aid from college sources, and the college might require self-help.

Source: Carnegie Council. Parental contributions are derived from Table 4.

4. *Special provisions benefiting disadvantaged students who may have difficulty meeting the self-help expectation or face other unusual circumstances,* including (1) the 10 percent override in the Basic Grant program, (2) use of SEOG funds to meet such special needs, and (3) preference in College Work-Study awards.
5. *Greatly improved opportunity for all needy students to receive tuition grants,* under our recommendations for the SSIG program.
6. *Avoidance of an additional shift in funds in the form of student grants or tuition tax credits to upper-middle- and upper-income families.*

Figure 3. Comparison of sources of support for typical students under existing policies and Carnegie Council recommendations, 1982-83 (in 1979 dollars)


Self-help expectation (in some cases only at present)
Parental contribution
Tuition grant (Carnegie)
Basic grant
Residual to be met from other sources
1. Lower-income student attending low-cost community college as commuter. Family income = $6,000. Tuition = $200; other educational costs = $2,400; total costs = $2,600.
$500 $850 $1,250
Existing policies
Carnegie Council
$800 $1,800
2. Lower-income student attending moderate-cost public four-year college as resident, lower division. Family income = $6,000. Tuition = $650; other educational costs = $2,500; total costs = $3,150.
$500 $1,575 $1,075
$850 $1,800 $400 $100
3. Lower-middle-income student attending low-cost community college as commuter. Family income = $15,000. Tuition = $200; other educational costs = $2,400; total costs = $2,600.
$500 $850 $717 $533
$800 $1,256 $544
4. Lower-middle-income student attending high-cost private four-year college as resident, lower division. Family income = $15,000. Tuition = $3,820; other educational costs = $2,900; total costs = $6,720.
$500 $1,083 $717 $4,420
$850 $1,256 $544 $1,500 $2,570
5. Upper-middle-income student attending moderate-cost public four-year college as resident, lower division. Family income = $23,000. Tuition = $650; other educational costs = $2,500; total costs = $3,150.
$500 $229 $1,571 $850
$850 $229 $1,571 $400 $100
6. Upper-middle-income student attending high-cost private four-year college as resident, lower division. Family income = $23,000. Tuition = $3,820; other educational costs = $2,900; total costs = $6,720.
$500 $229 $1,571 $4,420
$850 $229 $1,571 $1,500 $2,570

7. *Equitable access to loans for those lower-income students who find it necessary to borrow.*
8. *Simplification of rules and procedures.*
9. *A much higher degree of certainty about the total amount of aid for which a student would be eligible* (see Table 4).

Figure 3 and Table 2 provide illustrations of how typical students would be affected if the Council's recommendations were adopted. They show clearly the following results:

1. The lower-income student at the lower-division level would receive a Basic Grant of $1,800 in virtually all cases (except where the family has large assets), whereas at present his or her Basic Grant is reduced sharply by the 50-percent-of-cost limitation and by the ceiling of $1,500 on allowable subsistence costs if attending a lower-cost commuter college, and it is also reduced somewhat if attending a moderate-cost public four-year college. Only the lower-income student attending a comparatively high-cost college $3,600 or more) receives the full Basic Grant.
2. Only in certain states does a student at present receive a tuition grant of the amount indicated in Table 2 (moreover, these amounts are illustrative of amounts available in certain state scholarship programs, but awards actually vary a good deal from state to state). Under Carnegie Council recommendations, the inducement to states to follow federal policies relating to scholarship programs would be far greater because of the greatly increased federal matching funds. Tuition grants would become much more certain and in many cases larger in amount, although in some cases (chiefly those of students attending low-cost public institutions) they would be reduced somewhat compared with present awards because of the $250 self-help expectation.
3. The explicit self-help expectation would apply uniformly, except that it would be larger for upper-division than for lower-division students. At present, a student may be expected to have about $500 to $700 in savings from summer employment (a smaller amount than we recommend) if he or

she receives aid under a program using the CSS/ACT parental contribution schedule—that is, one of the campus-based programs, some of the state scholarship programs, or the college's own aid program in some cases. Under our recommendations, the self-help expectation would become much more certain.

4. As a result of these changed policies, the residual amount that the student would have to meet from other sources would be greatly reduced and would become much more certain. In fact, the residual would be minimal except for those students attending relatively high-cost private colleges.
5. All students from families in the $6,000 to $18,000 income range would benefit from our recommended shift to the CSS/ACT parental contribution schedule.

Institutions. Table 3 shows how grant funds made available under our recommendations would be distributed among institutions. The net result would not significantly alter the existing distribution. Approximately 36 percent of the funds would aid students in private institutions, and 64 percent would benefit those in public institutions. Under existing policies, the overall proportion of funds flowing to students in private institutions is also 36 percent.

We make the following concluding notations:

- Some states are already considering raising tuition in public institutions of higher education in order to capture the maximum federal funds, as well as to reduce net costs to the state. Such actions will increase costs to the federal government (and may increase state scholarship costs also). We have no way of calculating the potential amounts involved.
- The basic problem for "middle-income" families is a disproportionate rise in taxes as compared with money income, particularly as they rise into higher income brackets, and not in costs of attending college. Offsetting the cost of attending college benefits only those families with children in college, not all families; and only 10 percent of families with children in college face the costs of attendance at higher-cost private

Table 3. Total grant funds by type of institution (millions of 1979 dollars)

	Regular Basic Grants	*Discretionary Basic Grants*	*Federal/state tuition grants*	*SEOG grants*	*Total*	*Percent*
Public two-year[a]	1,243	124	57	11	1,435	26%
Public four-year						
Less than $700 tuition[b]	797	80	225	42	1,144	20
More than $700 tuition[c]	538	54	383	71	1,046	18
Private						
Less than $1,950 tuition[d]	244	24	365	68	701	12
$1,951 - $2,600 tuition[e]	164	16	298	55	533	9
More than $2,601 tuition[f]	251	25	506	94	876	15
Total	3,237	323	1,834	340	5,735	100%

[a] An estimated 930 institutions enrolling an estimated 2.3 million students more than half time.

[b] An estimated 310 institutions enrolling an estimated 2.1 million students more than half time.

[c] An estimated 250 institutions enrolling an estimated 1.7 million students more than half time.

[d] An estimated 540 institutions enrolling an estimated 700 thousand students more than half time.

[e] An estimated 280 institutions enrolling an estimated 500 thousand students more than half time.

[f] An estimated 820 institutions enrolling an estimated 900 thousand students more than half time.

colleges. Thus, at best, "middle-income" assistance is a very partial solution to a more general problem.

- The only really great "deficit" in enrollment rates is for black males from the bottom quartile of the income range; partially offset by higher participation by this group in the armed services where they do acquire skills. This is the segment of the population where greater equality of opportunity through college attendance is least realized. It also experiences the highest rate of unemployment. The programs we propose would make attendance in college by members of this group more feasible financially, but they by no means would guarantee greater participation.
- We urge strongly that our proposals be viewed as interrelated. It would not be wise to pick up one item at a time without consideration of the impact on other items. The "trade-offs" of reductions and increases are carefully balanced; and neither reductions nor increases should be considered all by themselves.

There is no final solution to all student aid problems. Changes will need to be made as experience accumulates and/or conditions change. However, we are now coming close to realization of an adequate and equitable program for the conditions of the current period.

2

Specific Recommendations

A Self-Help Requirement

One of the most pressing needs in student aid policies is to clarify and specify the role of student self-help.

Holding a part-time job is an important source of financing a college education. Yet earnings play an uncertain and ambiguous role in student aid. Some colleges require students who apply for aid to meet part of their educational expenses through earnings; others do not. Under Basic Grant policies, expected or actual earnings are not deducted from a student's grant, whereas under the CSS/ACT schedule there is an expectation of summer earnings.

Borrowing plays a similarly ambiguous role. Some colleges require that a portion of a student's aid package take the form of a loan, but this is by no means a uniform practice.

We believe that the time has come to assume that, under normal circumstances, a student applying for aid should be expected to contribute substantially to his or her college expenses. Students might substitute borrowing for all or a portion of expected earnings, especially in situations in which jobs are hard to find, but we believe that most students will prefer summer employment and part-time jobs during termtime to indebtedness.

There are many reasons for advocating a self-help expectation:

1. It will help meet the problems posed by the growing proportion of students declaring themselves independent of their parents and will facilitate devising equitable policies for providing assistance to needy part-time and adult students.
2. There is a case for student self-help in view of the economic benefits the student can normally expect from a college education.
3. An earnings expectation is consistent with the changing status of young people in our society. They have been granted legal majority, and they tend to achieve adult status in terms of social behavior earlier than college-age young people did in the past.
4. With the extension of student grants to young people from middle-income families, the relative contribution of the taxpayer, compared with that of students and parents, has been increased. An earnings expectation for all students applying for aid would help to redress the baiance.

On the basis of the data available on student earnings, we believe that it is reasonable to expect lower-division students to contribute about $600 to annual college expenses ($850 if they also participate in the SSIG program). Upper-division students, having successfully completed two years of college, should be capable of working somewhat more without interfering with educational achievement—we believe about $1,000 is a reasonably normal expectation for these students ($1,250 if they also participate in the SSIG program). It is true that women earn less than men—this is the case for women students as well as for women in the labor force generally—but our data show that the earnings requirements we propose fall below the average earnings of women who are employed both during the college year and in the summer. Clearly men would be able to meet the earnings requirement more easily than women, but we believe this inequity is preferable to a cumbersome and controversial policy that would call for smaller earnings expectations for women than for men. The self-help expectations should be adjusted upward by Congress from time to time.

Our data also show that students from the lowest parental income quartile are less likely to be employed than students

from families with more income. The difference is particularly pronounced in the case of summer employment. This may reflect the fact that summer jobs are harder to get in the inner city and rural areas where many lower-income students live or that summer earnings must be contributed to families for subsistence. In some cases, such students may expect to qualify for student aid and therefore feel less need for summer earnings. The tendency for fewer lower-income students to be employed helps to explain the lower percentages employed among blacks and other minority groups, a large proportion of whom are from lower-income families. On the other hand, blacks who are employed during the college year tend to earn more than employed white students, suggesting longer hours of work.

For a variety of reasons, some students—especially those from lower-income families—are likely to have greater difficulty in meeting an earnings requirement than others. We therefore propose that a portion of Basic Grant funds be set aside to meet the needs of such students, that preference be granted lower-income students and women in awarding CWS grants where the number of applicants exceeds the number of CWS jobs available, and that students be expected to opt for borrowing rather than contributing earnings in appropriate cases.

We also propose that the greater part of the normal self-help expectation be allocated to noninstructional costs through the Basic Grant program and the remainder to tuition through the SSIG program.

Recommendation 1: ***Students should normally be expected to contribute significantly from their own earnings toward college expenses, as a condition of eligibility for student aid. An earnings expectation should gradually be imposed in the Basic Grant program and by 1982-83 should amount to $600 for lower-division students and to $1,000 for upper-division students, and a modest additional contribution of $250 should be required in the SSIG program. A student should be permitted to meet the self-help expectation wholly or partially through borrowing as an alternative form of self-help.***

Expanding the Role of the College Work-Study Program

Under policies embodying a self-help requirement, the CWS program should play an even more important role than it does now. A recent study has shown that participation in federal work-study programs tends to enhance student persistence, especially among women and blacks. Somewhat surprisingly, also, whether the job is academic or nonacademic does not seem to make an appreciable difference in this result, although the job should be limited to not more than 20 hours a week (Wenc, 1977; and Astin, 1975). Participation in a work-study program or other on-campus employment appears to increase a student's sense of identification with his or her college.

Employment opportunities are relatively unfavorable for students in small-town colleges and for minority students in inner-city areas. They are also sometimes less favorable for women than for men. Thus, we believe that preference should be given to students who cannot find employment in the private economy when CWS funds are inadequate to meet the needs of all applicants.

Recent moves by the Congress and the administration to increase the appropriation for the College Work-Study program are to be commended. The funds allocated to the program have been increased from $300 million in 1974-75 to $550 million in the 1978-79 budget (to be expended in 1979-80). We believe, however, that additional substantial increases should be approved. Appropriations for the program should gradually be increased to $900 million by 1972-83 from the current $550 million.

We also believe that there is a strong case for gradual elimination of the family income eligibility conditions in the CWS program. Such a policy, in our view, would be greatly preferable to any additional extension of grant aid to students from upper-middle- or upper-income families or to tuition tax credits as a way of helping the families of such students. It would also be consistent with the desirability of eliminating social distinctions between students from low-income and high-income families.

Recommendation 2: ***The annual appropriation for the College Work-Study (CWS) program should gradually be increased to $900 million (in constant 1979 dollars) by 1982-83. Family income eligibility conditions should gradually be removed from the program, but preference in awarding employment opportunities under the program should be given to students, especially women and minorities, who have difficulty in finding jobs in the private employment market.***

Meeting the Problems of the Independent Student

A self-help requirement would also make a substantial contribution to resolving the difficult policy problems posed by the growth of the proportion of student aid applicants seeking independent status. Much of the concern about this trend arises over the possibility that, when their children are granted independent status, parents who could afford to contribute to their children's educational expenses are being relieved of their financial responsibilities. In fact, available data do not suggest that this type of abuse of student aid is widespread, for independent students are more likely to be from lower-income families than are dependent students; but the possibility of such abuse does exist, and it is quite possible that increasing advantage will be taken of it.

In particular, we believe that the probability of abuse may increase as a result of one of the changes brought about by the Middle-Income Student Assistance Act of 1978, under which the "family size offset" for an independent student without dependents was raised from $1,100 to $3,400.[1] This means that $3,400 of such a student's income would be disregarded in determining eligibility for a Basic Grant and that almost every independent student without dependents could qualify for the maximum Basic Grant. Under these conditions, the temptation to seek independent status in order to avoid a parental contribution would be very great. We believe that it would have been wiser for Congress to increase the family size offset more gradu-

[1]Congress did not appropriate the funds needed to finance this provision in adopting the 1978-79 budget, nor did the administration include them in the 1979-80 budget.

ally, if at all, in order to evaluate the results. The policy needs to be reconsidered. It is undoubtedly a desirable provision for some groups of independent students, such as divorced or separated women, but its invitation to abuse on the part of students who would otherwise be assisted by their parents is a serious problem.

Our proposal for a self-help expectation would help to prevent abuse on the part of students seeking a "free ride."

We believe, also, that more objective criteria should be developed for determining independent status. Existing rules are difficult to enforce and at the same time intrusive in their concern with intrafamily relationships. New general rules should be developed that would take into account the applicant's age, whether he or she has dependents, whether he or she is an orphan, and the number of years during which he or she has essentially been self-supporting. The more difficult cases of young students who do not meet such criteria could then be handled on a case-by-case basis by student aid officers, who would have access to detailed family financial information.

We also propose certain changes in policies relating to independent students with dependents. In general, the family contribution schedule for such families should be the same as for parents of dependent students (independent students with dependents are expected to make a higher contribution at present). Student aid should be available, however, only for the member of the family who is enrolled and not for dependents.[2] However, exceptions to this rule could be made, and reductions in the self-help expectation should be permitted in appropriate cases, such as those in which a mother enrolled as a student requires child care services.

Recommendation 3: *The self-help expectation should normally be applicable to independent as well as to dependent students, and the recently pronounced legislative increase in the "family*

[2]Aid for dependents of independent students is currently permissable under the SEOG program and other "campus-based" programs, but available funds do not often permit student aid officers to provide such aid.

size offset" for independent students without dependents should be reconsidered by Congress. More objective criteria for determining independent status should be developed—criteria that would take into account the applicant's age, whether he or she has dependents, whether he or she is an orphan, and the number of years during which he or she has been self-supporting. The more difficult cases of applicants who do not meet such criteria should be handled by student aid officers. Independent students with dependents should be subject to the same parental contribution schedule as parents of dependent students (with adjustments to meet unusual circumstances), and should not ordinarily receive student aid for their dependents.

Equitable Provision for Noninstructional Costs

We believe that equitable provision for noninstructional costs should be the first responsibility of a need-based student aid program. Noninstructional costs include basic subsistence expenses and the costs of such essential items as books, supplies, and necessary transportation expenses. Meeting these costs is far more difficult for students from lower-income and disadvantaged families than it is for young people from more affluent families. In a lower-income family, the earnings of a college-age son or daughter may be sorely needed to contribute to family subsistence needs, especially where income is inadequate because of the disability, unemployment, or death of the household head. In more technical terms, foregone earnings are a more serious sacrifice for students from disadvantaged families than for those from middle- and upper-income families.

Partly for this reason, we recommend that the Basic Grant program should be designed to cover noninstructional costs of needy students. Moreover, noninstructional costs vary much less from college to college and from one part of the country to another than do tuition and required fees. Thus they lend themselves to provision by the basic federal student aid program, whereas provision for tuition is more appropriately a responsibility of the federal-state SSIG program. That is so because tuition in public higher education—and thus the tuition gap between public and private institutions in a given state—is determined at the state level.

Recommendation 4: ***Student assistance under the Basic Grant program should be designed to cover noninstructional costs of needy students.***

Reconciling Subsistence Needs and Self-Help Expectations

If the Basic Grant program is to provide adequately for subsistence needs and other noninstructional costs of needy students and incorporate a self-help expectation, the size of the maximum grant should be increased gradually over the years from 1979-80 to 1982-83. We commend Congress and the administration for supporting increases in the appropriations for the program in the last few years, which have made it a true entitlement program, and for raising the maximum grant to $1,800. However, noninstructional costs have been rising and additional increases can be expected in the future. For 1978-79, noninstructional costs for student commuters at various types of institutions have been estimated to be in the neighborhood of $2,000 (Suchar, Ivens, and Jacobson, 1978, p. vii). They are considerably higher—around $2,700—for students living away from home, because charges for board and room are higher than estimated board and room costs of student commuters (Suchar, Ivens, and Jacobson, 1978). We believe that the maximum Basic Grant award should be increased gradually over a period of three years to $2,400 to cover noninstructional costs adequately for the average student. In practice, this would mean that the maximum grant would normally be $1,800 for lower-division students and $1,400 for upper-division students, taking the self-help expectation into account. Since under present policies the maximum allowance for noninstructional costs for commuters is $1,500, the effect of our proposals would be to increase the maximum allowance for noninstructional costs for many lower-division students as well as for all students who would not be able to meet the self-help expectation because of special circumstances.

Future adjustments in the Basic Grant ceiling to meet rising costs will be needed from time to time, but should be left to Congressional determination.

Recommendation 5: *The maximum award in the Basic Grant*

program should be increased gradually to $2,400 by 1982-83. This would mean that the maximum grant in practice would normally be $1,800 for lower-division and $1,400 for upper-division students, after taking account of the self-help expectation.

Providing for Exceptional Cases

Although we believe that a self-help expectation is a reasonable requirement of a student aid program, some students will have unusual difficulty in meeting such a requirement because they attend college in areas where part-time jobs are particularly hard to find, or they are physically handicapped, or they need to take extra courses beyond the normal load because of poor preparation for college work, or they are too young (age 16-17) to have good job opportunities. We therefore propose that Congress appropriate an additional sum for the Basic Grant program, amounting to 10 percent of estimated costs for the usual types of grants under the program, to meet the needs of these students in unusual circumstances or for whom the earnings expectation would create difficulties.

Some of these students would be members of minority groups living in inner-city areas, where unemployment rates are exceptionally high. Others would be students in colleges located in small communities where few suitable jobs are available. Others would be disabled, while still others would be carrying a heavy course load because of the need for orientation to college-level education, or they would be less than 18 years of age. Such students could receive up to $2,400 a year by 1982-83.

Availability of such discretionary funds would facilitate uniform treatment under simplified rules for the more usual student applicant. It would also facilitate accommodation of the genuinely needy independent student without opening the door to abuse by students seeking independent status for the purpose of relieving their parents of expected contributions.

Recommendation 6: *Congress should allocate, over and above the sum needed to meet normal expected costs of the Basic Grant program, an additional 10 percent for discretionary use in the administration of the program at the campus level, including*

waiver or modification of the self-help expectation for students whose employment opportunities are impaired by residence in inner city or rural areas, disabilities, the need for a heavy course load, exceptional family circumstances, or college entrance at an unusually early age.

Removing the 50-Percent-of-Cost Limitation

With adoption of our proposal for a self-help expectation under the Basic Grant program, one important reason for the existing limitation of a student's grant to no more than 50 percent of the student's total educational costs is removed. Part of the rationale for the 50-percent-of-cost limitation has been that students attending low-cost commuter institutions should not have their full costs of attendance subsidized by the general public. In fact, under our proposal a lower-division student attending an institution with costs of $2,500 or more (and there are very few institutions with costs lower than that) would receive a grant amounting to 72 percent or less of total costs (the higher the costs, the smaller the percentage), while an upper-division student would receive 56 percent or less. These percentages would not apply to the exceptional cases discussed above.

The 50-percent-of-cost limitation has tended to discriminate against low-income students whose most feasible option is attendance at a low-cost commuter institution, and yet its retention has been vigorously supported by some representatives of private institutions, for fear that low-income students would be even more likely to attend low-cost public institutions if their full costs could be covered by a Basic Grant. However, the impact of our Basic Grant recommendations should be considered in conjunction with our recommendations for expansion of the SSIG program. If our recommendations relating to SSIG are adopted, not only will the competitive position of private institutions in states now lacking adequate state scholarship programs be greatly improved but so will the capacity of lower-income students to attend private institutions.

Recommendation 7: *The present limitation of a Basic Grant to 50 percent of a student's total educational costs should be re-*

moved, since our recommendations for a self-help expectation in the Basic Grant program, together with our recommendations for substantial expansion of the SSIG program, remove the rationale for retention of the limitation.

Preventing Erosion of Need-Based Student Aid

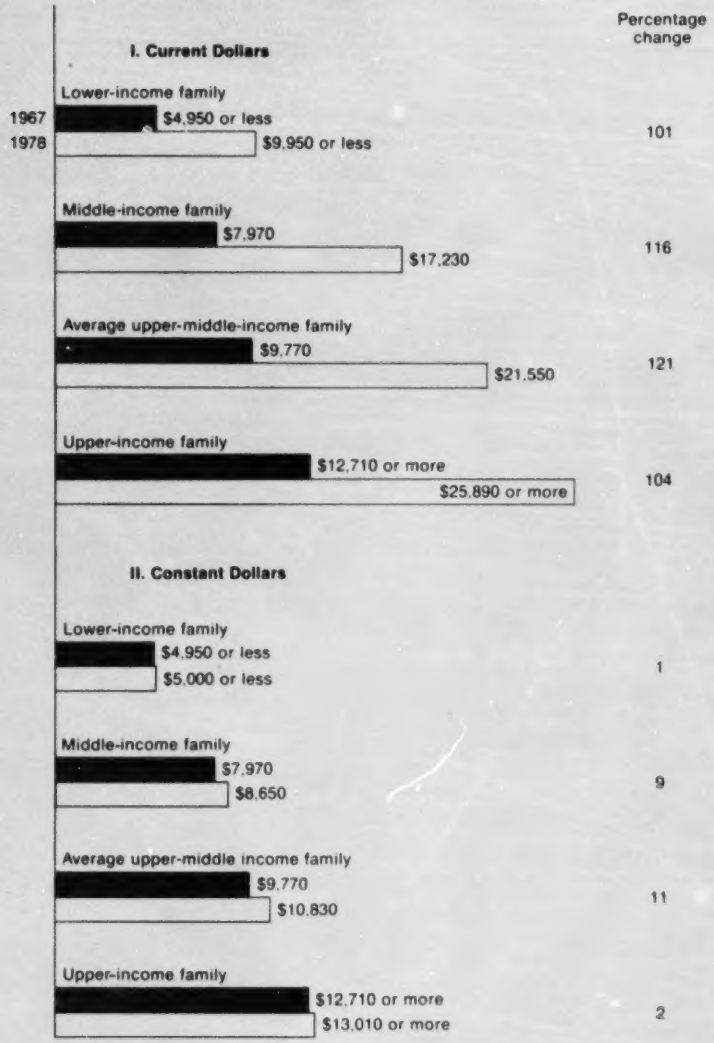
With the adoption of the Middle-Income Student Assistance Act of 1978, a major step has been taken to extend student grants to the children of upper-middle-income families. We believe that this movement need go no farther, and, in particular, we oppose adoption of tuition tax credits for the families of college students.

The evidence that young people from middle-income families have been discouraged from college attendance by rising costs is unconvincing. Only among young white males has there been a drop in attendance rates, affecting all income groups, and this decline is probably chiefly attributable to the removal of the draft. In addition, incomes of average upper-middle-income families have more than kept pace with rising costs of college attendance, when allowance is made for the fact that expected parental contributions have risen much less than income (Figure 2). And, as Figure 4 shows, middle- and upper-middle-income families have experienced more pronounced increases in income than either lower- or upper-income families, whose income increases have barely kept pace with the cost of living.

We believe that Congress was wise in choosing to help upper-middle-income families by liberalizing student aid, rather than by adopting tuition tax credits, because their approach preserves the principle of need-based student aid, whereas tuition tax credits do not. We also oppose tuition tax credits for the following reasons:

1. They would be very costly to the U.S. Treasury, while at the same time providing such nominal relief to individual families that the pressure to increase the amounts of the credits, once adopted, would inevitably be very strong.
2. The temptation for colleges and universities to raise their tuition by the amount of the tax credit would be very great,

Figure 4. Relative changes in income for families at different income levels, in current and constant dollars, 1967 to 1978



Sources: Computed from data in U.S. Bureau of the Census (1969, Table 9, and 1978a, Table 6); and President of the United States (1978, p. 313). Data on family income for 1978 projected on the basis of trends from 1972 to 1977.

thereby nullifying the relief and rendering the aid to families self-defeating.

3. Tuition tax credits are not an effective way of helping private institutions compete for students, because they would not reduce the tuition gap between public and private colleges, and the bulk of the benefits (if any) would go to the far more numerous families whose children enroll in public institutions.

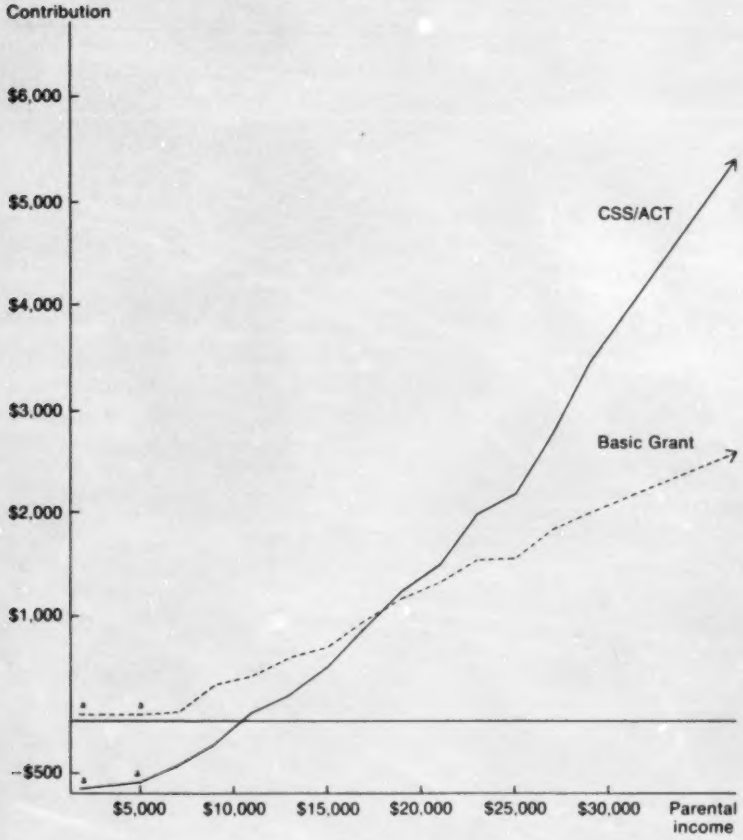
Recommendation 8: *The movement to provide aid to students from "middle-income" families should go no further. Any additional changes in this direction would seriously erode the need-based character of student aid. In particular, we strongly oppose adoption of tuition tax credits for the families of college students as a regressive and self-defeating form of parental relief. The central purpose of student aid programs should continue to be the encouragement of equality of opportunity.*

Need for a Uniform Parental Contribution Schedule

The liberalization of the Basic Grant parental contribution schedule that was adopted under the provisions of the Middle-Income Student Assistance Act of 1978 has created a situation in which the need for a uniform parental contribution schedule is imperative. As Figure 5 and Table 4 show, the expected parental contribution under the Basic Grant schedule is higher than the contribution expected under the CSS/ACT schedule for families with incomes up to $18,000. For higher family incomes, however, the contribution under the CSS/ACT schedule not only is larger but increases more sharply because it calls for progressively higher proportional contributions from families as income rises, whereas the Basic Grant schedule calls for a flat contribution rate of 10.5 percent.

The situation has become very unstable because there will be pressure from parents, students, and student aid officers to shift from the CSS/ACT to the new Basic Grant schedule in connection with federal campus-based student aid and state scholarship programs, at least as the schedule relates to higher incomes. The new Basic Grant schedule is, in fact, inoperative in

Figure 5. Average expected parental contributions for dependent students, by family income: Comparison of CSS/ACT and revised Basic Grant schedule for 1979-80



[a]Parental contributions are expected of these low-income families where assets are large, as in some farm families.

Source: Table 4.

relation to the Basic Grant program itself for families with incomes above $25,000 because at that point the expected parental contribution rises to $1,600 or more, and thus, with a maximum grant of $1,800 and a minimum grant of $200, the

Table 4. Comparison of Basic Grant and CSS/ACT: Average expected parental contributions for dependent students, 1979-80

Total income	*CSS/ACT*	*Basic Grant*	*Percent difference*
$ 0 - 4,000	$−670	$ 81	NA
4,000 - 6,000	−600	51	NA
6,000 - 8,000	−439	111	NA
8,000 - 10,000	−220	355	NA
10,000 - 12,000	57	437	666
12,000 - 14,000	245	610	148
14,000 - 16,000	544	717	31
16,000 - 18,000	902	983	8
18,000 - 20,000	1,256	1,217	−3
20,000 - 22,000	1,520	1,361	−10
22,000 - 24,000	2,113	1,571	−25
24,000 - 26,000	2,215	1,593	−28
26,000 - 28,000	2,839	1,883	−33
28,000 - 30,000	3,380	2,016	−40
30,000+	6,341	3,052	−51

Source: Data provided by the College Scholarship Service (CSS) of the College Entrance Examination Board. Simulations based on 2,000 random cases of dependent student CSS filers. These are preliminary estimates. Further simulations (including estimates varied by family size, number of dependents in college, asset levels) are being conducted on a sample of 10,000 cases.

student becomes ineligible for assistance. However, such a student could readily receive more generous aid under campus-based or state scholarship programs if the new Basic Grant schedule became the standard, while Basic Grant recipients could receive a more generous total package of aid if they qualified under these other programs.

We believe that such a trend would be a major mistake, for the new schedule is so liberal in the upper-income ranges that its widespread use would virtually do away with the concept of need in federally supported student grant programs.

We advocate instead adoption of the CSS/ACT schedule as the standard for all federally supported student aid programs, except for such minor adjustments of contributions for families in the $22,000 to $25,000 income range as would preserve eligi-

bility for a small Basic Grant for their children. (At present, the expected parental contribution for families in this income range under the CSS/ACT schedule is about $2,000, thus ruling out eligibility for a Basic Grant with a ceiling of $1,800.) The CSS/ACT schedule was liberalized markedly between 1974 and 1975, greatly reducing expected parental contributions and resulting in a situation in which even students from families in the $30,000 to $35,000 income range could expect some grant aid.

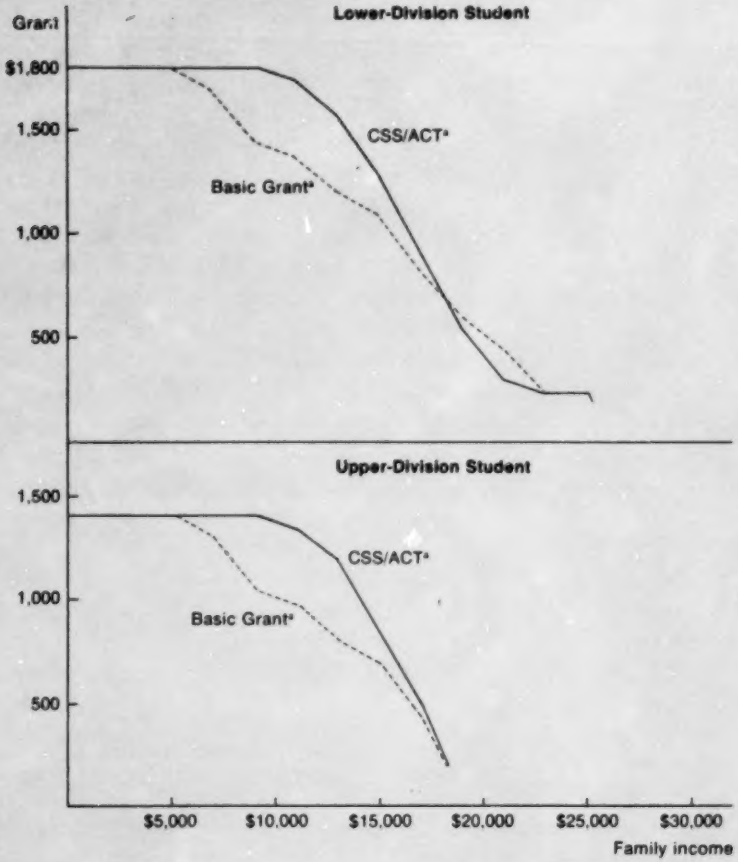
Applying the more generous new Basic Grant schedule to these upper-income ranges would be altogether unjustified, while shifting to the CSS/ACT schedule for the Basic Grant program would result in more adequate aid for students from families in the income range from $6,000 to $18,000. In Figure 6, we show how our recommendations for the Basic Grant program would work out if the CSS/ACT schedule were adopted (except for the $22,000 to $25,000 family income range, where the new Basic Grant schedule would apply) and if our self-help expectations were adopted. Implicit in our self-help expectations is the elimination of Basic Grants for upper-division students from families with incomes of $18,000 or more, except for those students in unusual circumstances who would qualify for assistance from the 10 percent Basic Grant override.

The CSS/ACT schedule should apply not only to Basic Grants and to the federal SEOG program but also to federal matching of state funds under the SSIG program. The impact of this policy on state programs will be discussed more fully below.

If the CSS/ACT schedule does become the standard for these programs, however, it is imperative that a number of complexities (such as graduated allowances for accumulating savings for retirement) be removed from the schedule and that the application form be greatly simplified. This is in line with our general proposal for simplification of regulations and procedures.

Recommendation 9: *A simplified CSS/ACT parental contribution schedule should be adopted by the federal government to apply to federal student grant programs and to federal matching of state funds under the State Student Incentive Grant program,*

Figure 6. Basic Grants for which students would be eligible, using CSS/ACT or Basic Grant family contribution schedule, assuming a maximum grant of $2,400 and self-help expectations recommended by the Carnegie Council



[a]Assumes the expected parental contribution for a four-member family with one child in college and no unusual circumstances; also assumes that CSS/ACT schedule is adjusted to correspond to the Basic Grant schedule for families in the $22,000 to $25,000 income range.

Source: Carnegie Council (derived from data in Table 4).

after minor adjustments to preserve eligibility for Basic Grants for students from families in the $22,000 to $25,000 income range.

Limiting the Duration of Student Aid

The Basic Grant program, as well as other student aid programs, can be abused by students with irregular patterns of participation in higher education, who may stop out for a time without having completed a degree program and later return. We believe that eligibility for Basic Grants should be limited to a total of two years at a two-year college and to four years at a four-year college (on a full-time equivalent basis) and that students who are not making normal progress toward a degree should lose their eligibility for student aid.

Recommendation 10: *Eligibility for Basic Grants and other types of federally assisted student aid should be limited to two years at a two-year college and four years at a four-year college (on a full-time equivalent basis) and to students making normal progress toward a degree.*[3]

The SSIG Program

We believe that the federal-state State Student Incentive Grant (SSIG) program should be the primary means of providing tuition assistance for needy students. To this end, we recommend a large increase in federal appropriations for the program, in line with our earlier recommendations (Carnegie Council, 1975, 1977). There are several important reasons why tuition assistance can best be provided by a federal-state program.

1. Tuition policy in public higher education is determined at the state level, and thus it is at that level that the size of the tuition gap between private and public institutions of higher

[3]The period could be lengthened to five years for certain degree programs, as in engineering, that normally require five years for a bachelor's degree, as under existing policies.

education is also determined. Just as there is a case for designing the Basic Grant program to meet noninstructional costs, which vary little from state to state, there is a corresponding need to structure the SSIG program to aid needy students in meeting tuition costs. In fact, many of the state scholarship programs do limit state grants to covering a portion of tuition and fee expenses.

2. Adequate federal matching grants will provide a powerful incentive for increases in state appropriations for scholarship programs in the many states in which such appropriations are seriously inadequate. Although the SSIG program has demonstrated its effectiveness in inducing states to adopt programs of student aid where they were previously nonexistent, it has been much less effective—chiefly because of small federal appropriations—in inducing such states to provide funds large enough to provide for needy students. All of the states with the largest scholarship programs had developed their programs before the federal SSIG program was adopted under the 1972 amendments.
3. In the absence of special federal assistance, state scholarship programs are likely to discourage interstate movement of students and thus are likely to lead to excessive provincialism in higher education. In fact, according to the most recent survey of the National Association of State Scholarship and Grant Programs (1978, p. 24), state grants are now portable (available for all students enrolling outside their state of residence) only in Connecticut, Delaware, Massachusetts, Rhode Island, and Vermont (along with the District of Columbia and the Virgin Islands). Several states, including New Jersey and Pennsylvania, which formerly provided for portability in some or all of their scholarship programs, have recently taken steps to limit portability to states that reciprocate (Hansen, 1979).
4. As matters stand, there is enormous variation among the states in their willingness to finance state scholarship programs. Just five states—California, Illinois, New York, Pennsylvania, and New Jersey—account for 65.7 percent of appropriations for 1978-79. At the other extreme are states

with extremely small expenditures. We believe that a decisive increase in federal matching funds would induce the lagging states to allocate enough money to provide for needy students.

In this connection, it is important to point out that our recommendations are aimed at equalizing the burden of states in providing scholarships for needy students, as well as inducing larger appropriations from lagging states. We do not believe that an equitable federal-state student aid system will be achieved until this is accomplished. States with exceptionally large state scholarship financing burdens would be able to reduce their own appropriations if much larger federal matching funds were available. In 1978-79, federal matching funds amounted to only 2 percent of New York's expenditures on need-based undergraduate state scholarships. They were also an extremely small percentage of total scholarship funds in other states that had had large programs before SSIG was adopted. On the other hand, federal matching funds amounted to 50 percent of the total (but very small) appropriations in many of the states that had been induced to adopt state programs under the impetus of SSIG.

In this respect, our proposed policies differ markedly from those espoused by some members of Congress who have advocated moving the base date for federal matching forward. Under existing policies, the federal government matches increases in state funds since 1971-72 (for states that had state student aid programs then) or since the "second fiscal year preceding the fiscal year in which the state initially received funds" (for states with new programs). Members of Congress who would move the matching date forward to some year much more recent than 1971-72 are interested primarily in inducing increases in state appropriations, regardless of the impact on equitable distribution of matching funds among the states.

In addition to proposing a major increase in federal expenditures for the SSIG program, we recommend the following changes in federal provisions for the program:

1. Federal matching funds, which now cover one half of state grants up to a maximum of $1,500, should be modified to cover one half of state grants (for tuition and required fees only) up to a maximum of $1,500 over and above the first $250 of tuition, which should normally be met from the student's earnings or other forms of self-help.
2. In order to induce states to make tuition grants portable, we recommend that the federal government pay 75 percent of the cost of those tuition grants that are used by a student to enroll in a state other than his or her state of residence. In other words, the federal government would match on a three-to-one, rather than the usual one-to-one, basis in the case of grants used outside of the student's state of residence. We believe that this overmatching would provide a powerful inducement to states to make their grants portable, although some states might wish to limit portability to states that reciprocate.
3. We recommend moving the matching date back to 1969-70 for those states that had eligible state scholarship programs at that time.
4. We also recommend that the CSS/ACT parental contribution schedule should apply to federal matching in the SSIG program.[4] There are a number of states in which a relatively large proportion of the recipients of state aid are in upper-middle-income families. States would be free, under our proposal, to use parental contribution schedules that were more liberal than the CSS/ACT schedule, but they would not receive federal matching funds for amounts of student aid that would not be available under that schedule.

In this connection, states would also be free to follow more generous policies than those we recommend in other respects, but they would be eligible for federal matching funds only for those amounts of student aid indicated by the policies

[4]Under the Educational Amendments of 1972, the Commissioner of Education has the power to approve criteria of need established by states, but in practice the states have largely been free to apply their own criteria.

we propose. California, for example, now makes grants up to a maximum of $2,900 and probably would not wish to lower this ceiling.[5] but it would be eligible for federal matching up to only $1,500 (and after allowing for the $250 self-help expectation).

Another important point is that, even if a uniform parental contribution schedule is in effect for both federal student aid and a state scholarship program, state aid will inevitably be available for students from upper-middle-income families and from some upper-income families under the coordinated federal-state policies that we propose. This is because a large proportion of parents will meet all or most of their expected contribution in connection with noninstructional costs and will not be expected to make a contribution of appreciable size in connection with the state scholarship program. This effect is particularly important for families with incomes in the range of $20,000 to $35,000 (the effect varying, of course, with the cost of the college the student is attending).

We estimate the cost of the federal-state SSIG program under these proposed changes at $1,834 million (in constant 1979 dollars) by 1982-83, of which $917 million would represent federal expenditures and $917 million state expenditures. The 50-50 division between federal and state expenditures is somewhat accidental. Although the federal government would not match the approximately $200 million being spent by states in 1969-70, its additional costs for meeting 75 percent of portable grants are estimated at about $200 million, so that adjustments for these two items result in making federal costs equal to state costs.

Thus, our recommendations would call for an increase in the federal appropriation for SSIG from $77 million in 1979-80 to $917 million in 1982-83. This is a large increase, but, as Figure 1 and Table 1 show, the increase (plus our proposed increase in Basic Grant and in College Work-Study expenditures) would be offset by reductions in costs of other federal student

[5]The statutory ceiling is actually somewhat higher, but, according to the California Student Aid Commission, the working maximum is likely to be $2,900 in 1979-80 because of limitation of available funds.

aid programs so that overall expenditures on all student aid programs would decrease somewhat by 1982-83.

Our proposals would call for a net increase of about $152 million in state expenditures on scholarship programs, as compared with expenditures in 1978-79. However, this net increase would represent the difference between an increase of about $367 million for those states (the vast majority) that would have to increase their appropriations to qualify for full federal matching and a reduction of about $215 million for six states—California, Illinois, Minnesota, New Jersey, New York, and Wisconsin—that could reduce their expenditures, because they would receive far more federal funds than they do now.[6]

Another point that should be emphasized is that our recommendations relating to the maximum tuition grant imply that many students, especially those seeking to attend relatively high-cost institutions, will have to borrow to meet their full tuition costs unless they can earn more than the normal earnings expectation, receive aid from the college's own funds or from their parents, or succeed in finding the money in some other way. We do not regard this as an undesirable consequence of our proposal for structuring SSIG tuition grants, especially in view of the fact that institutions with high tuition do tend to have more student aid funds of their own, and a public policy designed to provide tuition grants that would match tuition costs at such institutions would be highly questionable.

Recommendation 11: *Total appropriations for the federal share of the SSIG program should be increased to $917 million by 1982-83, so that total federal-state funds for need-based undergraduate state scholarship programs would be large enough to provide tuition assistance to all needy undergraduates.*

Federal provisions should also be amended to (1) provide matching funds for grants to meet tuition expenses in excess of $250 up to a maximum of $1,500—the $250 being a self-help expectation for the student—or a total tuition of $1,750; (2)

[6]The reduction would be very small for California and would not apply if the state retained its policy of allowing a relatively high maximum grant.

increase the federal matching formula to 75 percent of the cost of grants awarded to students attending institutions in other states (limited to states that reciprocate, if the state prefers); (3) provide for matching increases in state appropriations from 1969-70 on; and (4) limit federal matching to amounts of student aid indicated when the CSS/ACT parental contribution schedule is used.

The SEOG Program

Although Congress specified under the Education Amendments of 1972 that Supplementary Educational Opportunity Grants (SEOG) should be awarded to students "of exceptional financial need," it is not clear that the program has conformed to that purpose.

We believe that, with a uniform self-help expectation and a greatly expanded SSIG program, the SEOG program can serve a more clear-cut purpose in providing student aid officers with funds that can be allocated to students who have exceptional need for grant assistance, either because of unusual family circumstances, or because of special difficulties in meeting the self-help requirement. Its role would be analogous to that of the special 10 percent augmentation of Basic Grant funds, but whereas these Basic Grant funds would be allocated for meeting noninstructional costs, SEOG funds would cover unusual needs for meeting tuition costs.

Recommendation 12: ***The Supplementary Educational Opportunity Grant (SEOG) program should be continued at approximately its 1979-80 level of funding, but assistance under the program should be designed for students who have difficulty in meeting tuition costs because of unusual family circumstances, difficulty in meeting the self-help requirement, or other special problems.***

An Equitable and Accessible Loan Program

In the eyes of the general public, the chief problem with existing student loan programs has been a high rate of default. Recently the Office of Education has intensified its efforts to

reduce defaults, with some apparent success. The latest reported overall default rate of about 11 percent in the Guaranteed Student Loan (GSL) program is somewhat lower than that reported earlier ("GSL Needs Sallie Mae's Help . . . ," 1978). The 19 percent default rate in the National Direct Student Loan (NDSL) program will be more difficult to reduce. In the view of some observers, however, there is no case for far-reaching changes in existing student loan programs if the default problem can be brought under control.

We do not agree. We find many serious inequities and deficiencies in existing student loan programs that can be corrected only by replacing them with a more unified and carefully structured program.

Although the Carnegie Council does not believe that loans should ever become the major source of student financing, especially for undergraduates, we do believe that an equitable and accessible loan program should be available as a supplement to other forms of student assistance, especially for upper-division students, and as an indispensable source of support for graduate and professional students.

Our 1975 recommendation for a National Student Loan Bank (which was modeled after a recommendation made by the Carnegie Commission in 1970) appeared to attract little attention in Congress, but there are indications, especially in the form of recent proposals for similar, though not identical, restructuring of loan programs, that higher priority will be placed on serious consideration of such proposals in the debates over the 1979 amendments.

Briefly, we identify the following weaknesses in the GSL program:

1. A basic problem of inequality of opportunity because of the inevitable preference of lenders for students from families with good credit standing.
2. The difficulty of ensuring student access to loans in a tight money market, especially when there is a lag in adjusting the "special allowance" that supplements the interest yield of GSL loans.
3. The lack of incentive for banks and other lenders to pursue

adequate collection procedures when loans are guaranteed by the federal government.

4. A fundamental question as to whether interest subsidies, as opposed to deferral of interest until after graduation, are appropriate, especially now that they are available for students from all families, regardless of income.
5. The disadvantage of a short period of repayment—difficult to avoid when banks predominate among lenders—in view of the fact that incomes of college graduates are likely to be lower in the first ten years after graduation than they are later in life. Such a repayment period is particularly disadvantageous for married women who leave the labor force to have children.

The NDSL program, through which funds have been made available to colleges and universities since 1958, is also by no means free of problems:

1. The 3 percent interest rate on NDSL loans, which was in line with prevailing rates when the program was established, has increasingly become an anachronism, involving serious inequities between the students who repay at this low rate and those who must pay the GSL rate of 7 percent.
2. Other inequities arise from the fact that colleges and universities have complete control over which students receive NDSL loans but much less control over GSL loans. There is an understandable tendency to give preference to able students in the allocation of NDSL funds.
3. The default rate in the NDSL program (about 19 percent) is even higher than in the GSL program.

We believe that these inequities, as well as excessive government subsidization, could be overcome by phasing out existing loan programs and replacing them with a National Student Loan Bank (NSLB), including the following provisions:

1. The federal government should charter a National Student Loan Bank, a nonprofit private corporation to be financed by the sale of governmentally guaranteed securities. The

bank would be self-sustaining, except for administrative costs and the costs of loan cancellation owing to death or unusual circumstances.

2. The bank would make loans in amounts not to exceed a reasonable total per year, which would in no case exceed a student's cost of education minus any grant aid and minus the relevant earnings expectation for those students opting to meet the self-help expectation through earnings. To make certain that these limits were observed, the college's financial aid officer would be required by the bank to certify the application. No student would be permitted to borrow more than $500 in the first semester of his or her freshmen year. We propose this limit not only because we think an appropriate combination of student grants, parental contributions, and student earnings should prevent any need for substantial borrowing by beginning students but also because such a limit would severely discourage an important type of abuse of student loans by certain unscrupulous institutions of higher education that entice students to enroll with the aid of loans and by some student borrowers who are not serious about higher education.
3. Borrowers would be required to repay loans by paying approximately 1 percent of income each year for each $1,000 borrowed until the total loan and accrued interest was repaid (the exact amount to depend on projected rates of inflation). This level of repayment would permit the average income earner to repay his loan in about 20 years. (Lower earners would require a longer period.) Borrowers filing a joint tax return could elect an appropriately lower rate of repayment that would be applied to the combined income of the husband and wife.
4. Provisions relating to the beginning of initial repayments after completion of studies and after years of service in the armed forces or in national service programs would resemble those in existing legislation. There would also be provision for deferral of payments during any periods of exceptionally low income.
5. The bank would be authorized to enter into an agreement

with the Department of the Treasury under which the Internal Revenue Service (IRS) would undertake all collections, or, alternatively, the bank would be responsible for all collections except those that are seriously delinquent, which would be turned over to the IRS.

6. The interest rate charged the borrower would be set at a level adequate to permit the bank to obtain the funds.
7. There would be no needs test and no subsidization of interest. Interest payments would be deferred while a student was enrolled, and accrued interest obligations would become a part of the debt at the beginning of the repayment period.
8. There would be no cancellation of indebtedness for entering particular professions. Any remaining indebtedness would be cancelled upon the death of the borrower or at the end of 30 years from the date of first payment.

Unlike full contingency loan programs, such as the proposed Educational Opportunity Bank, this program does not involve redistribution of income through differing levels of repayments for individuals with different levels of income. Lower-income borrowers would have to repay their entire debt but would be able to spread repayments over a longer period. The program is modeled to some extent after the well-established Swedish student loan program, but differs from that program in some details.[7]

A point deserving emphasis in the NSLB proposal, in view of the concern of women over the inequities involved in the short repayment period, is the provision relating to couples filing joint tax returns. Since repayments would be related to the combined income of the husband and wife, they would automatically go down if the wife left the labor force for a period.

The possibility of gradually converting the Student Loan Marketing Association (SLMA or Sallie Mae) to an organization more closely resembling the NSLB seems promising.[8] The SLMA has had considerable success, through its role in creating

[7]For a discussion of Swedish student aid programs, see Woodhall (1978).

[8]See Hartman (1977) for more detailed discussion of such possibilities.

a secondary market for student loans, in expanding available loan funds. However, it would be necessary to change the status of SLMA from a profit-making to a nonprofit institution in order for it to perform the role we envisage for a NSLB, and there would have to be a number of other changes in its charter.

In some of the debates over NSLB proposals, there has been a tendency to assume that establishment of such a facility would mean an enormous increase in student borrowing and encourage institutions of higher education to raise tuition as a result. We do not believe that such fears are justified. Establishment of an NSLB would improve access to loans and reduce inequities in the student loan market, but, especially in view of the substantial amounts of grant and work-study assistance now available, there is little reason to believe that the total amount of student borrowing would rise suddenly and sharply as a result of establishment of an NSLB.[9] It might even go down because of higher interest rates and less chance to default.

Our NDSL proposal differs in some very important respects from the Tuition Advance Fund (TAF) proposed by President John Silber of Boston University and incorporated in bills introduced in Congress by Representative Michael Harrington and Senator Edward Kennedy, although there are some superficial resemblances. Under the TAF plan students (other than freshmen) could borrow to meet the costs of education. Repayments would be at the rate of 2 percent of adjusted gross income per year, with total repayment liabilities amounting to 1.5 times the original amount borrowed. As Breneman (1978, p. 62) has pointed out, to the extent that students borrowed their full costs of education, parents would be relieved of all responsibility for financing their children's education, and the principle of need-based student aid would be abandoned. Moreover, both Breneman and Dresch (1978) point out that the repayment plan would involve very heavy government subsidization of the costs

[9]This problem was discussed at a conference arranged by Senator Henry Bellmon of Oklahoma in Washington, D.C., on November 10, 1978. Senator Bellmon is the author of S. 3403, introduced in August 1978, which would establish a NSLB along the lines of Carnegie Council proposals.

of the program—a subsidy that would vary directly with the amount borrowed.

Recommendation 13: ***Congress should give careful consideration to phasing out the NDSL and GSL programs and replacing them by a National Student Loan Bank (NSLB). The possibility of changes in the provisions governing the Student Loan Marketing Association (SLMA) to transform it into an institution resembling the proposed NSLB may well facilitate such a move.***

Provision for Part-Time Students (Including Adults)

One of the striking developments of the last decade or so has been a pronounced increase in part-time enrollment, especially among persons who are older than the traditional age of college attendance. Most of these part-time students are employed and no longer dependent on their parents. Relatively few of them apply for student aid, but those who do must be enrolled at least half time and are usually eligible for aid only on a prorated basis—that is, a half-time student would be eligible for only one half of the aid available to a full-time student. This implies a larger earnings expectation for part-time students that is clearly justified in most situations. For those part-time students who are independent and have dependent family members, the adjustments of earnings expectations discussed earlier would apply.

Increasingly, tuition costs of adult employed students are paid by their employers under "out-service" training programs. Such employer expenditures are tax-exempt, but only if the program of study is job-related. In the United States, in contrast with the situation in some European countries that have developed paid educational leave programs, employer-financed training programs of this type are often confined to white-collar employees who are in line for promotion to supervisorial positions.[10] We believe that there is a case for gradual development

[10]For an extensive analysis of paid educational leave programs in Europe, see von Moltke and Schneevoigt (1977). A recent report issued by the National Manpower Institute (1978) indicates that many tuition aid programs available for employees (under union contracts) in the United States are not utilized.

of a more general paid educational leave program that would be designed to encourage lifelong patterns of learning.

Recommendation 14: ***Student aid should be available for part-time students on a pro-rated basis, provided they are enrolled for at least half-time study. In exceptional cases, where, for example, employment opportunities are impaired, the individual is handicapped, or an enrolled parent is responsible for child care, aid should be granted to students enrolled for less than half time at the discretion of the student aid officer, taking advantage of the Basic Grant override and SEOG funds.***

Future development of student aid policies for adult and part-time college students should be carefully considered in relation to the need to encourage a more general program of paid educational leave.

Simplification

One of the most common bases of complaint about student aid relates to the complexity of procedures and of federal regulations. Our recommendations aim at the development of relatively uniform and objective policies for handling most student aid applicants, leaving decisions relating to students in exceptional circumstances to the discretion of the student aid officer. Such decisions would relate, for example, to students having special difficulties in meeting earnings expectations or those meriting treatment as independent students even though they do not meet the more objective criteria we suggest in determining who is an independent student.

Among other proposals, our recommendation for a National Student Loan Bank would greatly simplify the federal role in administering student loans, compared with the present complex situation. A requirement that student aid officers would have to certify loan applications would relate the loan program more closely to the student's legitimate needs for borrowing than does the present loosely structured situation.

Some critics undoubtedly will argue that our policies imply too much delegation of responsibility to student aid officers. We would reply that student aid officers are almost univer-

sally responsible and conscientious and are usually in a better position to assess a student's special needs than federal officials, since they have more complete information about contributions to the student's expenses from all sources, including the student's earnings, his or her parents, and aid from grants or loans. There are, on the other hand, some student aid officers who do not meet these standards and who are in need of training and upgrading.

Recommendation 15: ***Federal rules and regulations relating to student aid are in need of simplification, which could be accomplished by adopting our proposals, which call for more uniform and objective policies relating to most student aid applicants, leaving decisions relating to the more complex and difficult cases to student aid officers. The Office of Education should also encourage adequate training and upgrading of student aid officers.***

Increasing Emphasis on Student Aid Packaging

The U.S. Office of Education (OE) has tended to administer individual student aid programs without much consideration of their interrelationships or of the need to devote more attention to the student aid package. Recently, in recognition of growing problems with student aid programs, and especially with loan programs, OE has begun to give greater consideration to the need to restructure its policies (including proposing legislative changes where necessary) so that they result in more equitable and carefully developed student aid packages for needy students.

Nowhere has the absence of careful student aid packaging been more apparent than in the case of loans, especially under the GSL program, for those students who were not eligible for an interest subsidy and did not necessarily come in contact with a student aid officer.

We believe that the NSLB would have to depend on certification by student aid officers (probably through regional or state offices) in order to enforce a reasonable requirement that a student could not borrow more than his or her total education

costs *less* any grant or Work-Study aid received and *less* the normal earnings expectation, where the self-help expectation is through earnings. Such a policy, carried out in a uniform national manner, would contribute a great deal to an accessible student loan program that also would be coherently linked to all other student aid programs. Increased attention by OE to student aid packaging would also contribute to bringing about a more equitable and structured relationship between state and federal student aid programs.

Recommendation 16: *The U.S. Office of Education should develop policies and procedures that encourage equitable and consistent student aid packages for all students, rather than treating each student aid program as a separate entity.*

Social Security Benefits for Students

The program extending social security benefits to college students aged 18 to 21 who are children of deceased, disabled, or retired workers provided valuable benefits when it was adopted in 1965, but its usefulness has become highly questionable as a result of the development of other student aid programs. In 1965, there was no federal student grant program, except for a new program (now SEOG), that was being adopted under the provisions of the Higher Education Act of 1965. It could readily be shown that dependent children who would be entitled to continuation of social security benefits under the amendment to the Social Security Act tended to come from relatively low-income families and encountered relatively severe financial barriers to participation in higher education. Moreover, the majority of industrial countries had similar provisions in their social security programs.

The case for special social security benefits is now much weaker because most of the students who receive social security benefits can qualify, on the basis of family income, for Basic Grants and other types of student aid. In fact, partly because continuation of social security benefits does not actually augment family income in many instances (especially where total family benefits are held down by the ceiling on family benefits),

and partly because the total family income of a beneficiary family is treated like that of any other family in determining the expected parental contribution under the Basic Grant program, a large proportion of students receiving social security benefits qualify for full or partial Basic Grants and also for other types of student aid, including state scholarships. Thus, the additional cost of student aid resulting from elimination of the special program for social security benefits would be much smaller than the estimated saving to the Old Age Survivors and Disability Insurance (OASDI) trust fund, while certain inequities associated with the social security benefits for students would be eliminated. These inequities take the following forms: (1) some, though a relatively small minority, of those now qualifying for social security benefits would not qualify for other types of student aid under existing parental contribution schedules; and (2) the social security benefits a student actually receives vary directly with family income (instead of inversely as under other student aid programs), because the student's benefit amount is related to the earnings of the deceased, retired, or disabled worker. In addition, financing of social security benefits for students from the OASDI trust fund adds to the problem of maintaining the future solvency of that fund and involves a method of financing that is regressive.

Recommendation 17: *The Council recommends the elimination of social security benefits for college students aged 18 to 21 who are children of deceased, disabled, or retired workers.*

Food Stamps for College Students

If our proposal to meet the subsistence costs of needy students through the Basic Grant program is adopted, there would no longer be a case for food stamp benefits for college students. Even a student living at home in a family receiving public assistance would be in a position to reimburse his or her family for any loss in food stamp benefits resulting from denial of benefits to students.

Meanwhile, the policy of providing food stamps for college students, though increasingly subject to restrictive provisions,

creates inequities and complexities. Perhaps most seriously, it exacerbates the problems posed by the independent student, who may in some cases be receiving food stamps even though, on the basis of parental income, he or she would not qualify for such benefits.

Finally, we believe, along with many social scientists, that provision of cash assistance to the needy, to be expended in accordance with the recipients' own needs, is far preferable to a program that subsidizes particular types of expenditures. As the President's Commission on Income Maintenance Programs put it: The Food Stamp and Commodity Distribution program, unlike other in-kind programs, could be replaced easily by a well-designed cash transfer plan. These programs supplement incomes but do so much less efficiently and with less consumer choice than direct cash transfer programs . . . (*Poverty Amid Plenty*, 1969, p. 72).

Recommendation 18: *The Council recommends that college students no longer be eligible for food stamps.*

Summing Up: Who Does What?

THE ADMINISTRATION AND THE CONGRESS

- The Administration recommends and Congress adopts our proposed recommendations relating to the Basic Grant, CWS, SEOG, SSIG, and loan programs.

THE STATES

- The states revise their student aid legislation , where necessary, to conform to the policies we recommend relating to amounts of tuition grants, elimination of subsistence provisions in student grants, the parental contribution schedule, and portability of grants. States cannot be forced to change their legislation, of course, but they would not receive federal matching funds for amounts of aid more generous than our policies allow, and they would not receive extra matching for portable grants unless they made the relevant changes in their legislation, where necessary.

THE U.S. OFFICE OF EDUCATION

- Revises regulations to simplify procedures
- Tightens enforcement procedures to prevent abuse
- Places more emphasis on student aid packaging rather than on individual programs in developing policies and procedures
- Cooperates with institutions and associations in providing special training programs for student aid officers

INSTITUTIONS OF HIGHER EDUCATION

- Grant recognition to the importance of the functions of the student aid officer by upgrading his or her status, providing adequate staff, and making provision for participation of student aid officers in conferences and training programs
- Cooperate with federal and state agencies in making certain that institutional student aid policies conform to national policies, that students do not abuse aid programs, and that borrowers meet their repayment obligations, especially under the NDSL program (even if it is abolished, as we recommend, there will be outstanding NDSL loans for many years to come).

Glossary

Basic Grant program (BEOG): The federal Basic Educational Opportunity Grant program, enacted in 1972.

CSS: The College Scholarship Service of the College Entrance Examination Board or its "need analysis" systems.

CSS/ACT: The equivalent "need analysis" systems now used by the College Scholarship Service and the American College Testing Service. Also called "the consensus model" and "the uniform methodology."

College Work-Study (CWS): See Work-Study.

Contribution rate: The percentage of income or assets net of exemptions and other deductions which parents or students are expected to pay toward cost of attendance according to some particular system of need analysis.

Cost of attendance: The total educational expenses of a student, that is, the sum of instructional costs (tuition and fees) and noninstructional costs (room, board, books, supplies, clothing, necessary transportation, and incidentals).

Discretionary aid: Aid given students not as a matter of right but because they are judged (usually by a student aid officer) to need it in their special circumstances.

Earnings expectation: The amount a student is presumed to be able to contribute toward educational expenses from summer vacation or term-time wages.

Entitlement: A definite amount of financial assistance to which a student has a legal right.

Equal access: Equality in the ability of students from families of different incomes to pay for minimum or greater costs of higher education when student aid is taken into account.

Exemption: An amount of income or assets from which a parent or student is not expected to make any contribution toward college expenses. For dependent students the amount is what is estimated as necessary to meet subsistence costs of other family members. Termed "standard maintenance allowance" in the CSS/ACT need analysis system and "family size offset" in the Basic Grant system.

Expected parental contribution: The amount that parents are estimated to be able to contribute to a child's college expenses from their income and assets. In a "need-based" student aid program, aid is not allowed to take the place of a contribution of this amount.

Expected family contribution: The sum of a student's expected parental contribution and his or her own expected "self-help" contribution, if any is assessed in a particular student aid program.

GSL (Guaranteed Student Loan): A loan insured against default by the federal government and accorded federal interest subsidies under any of several qualifying federal, state, and private programs.

Income groups: The terms *lower income, lower-middle income, upper-middle income,* and *upper income* are used in accordance with Table 5.

Independent student: A student whose parents are not expected to contribute financially toward meeting his or her educational expenses.

Means test: A system of "need analysis" for determining the amount that a student's parents are able to pay toward college expenses, and thereby whether the student qualifies for "need-based" aid.

Table 5. Explanation of terms for describing income groups

	Refers to members of families with income in the:	*Income range (1979 est.)*	*Percent of all families*	*Percent of families in income bracket with young people aged 18 to 24*	*Percent of families in income bracket with young people enrolled in college full-time*
Lower income	lowest quartile for all families	less than $10,600	25%	22%	12%
Lower middle income	second quartile for all families	$10,600 to $18,500	25	20	15
Upper middle income	third quartile for all families	$18,500 to $27,800	25	22	22
Upper income	highest quartile for all families	$27,800 or more	25	36	51
		Total:	100%	100%	100%

MISAA: The federal Middle-Income Student Assistance Act of 1978.

NDSL: The federal National Direct Student Loan program, the successor to the National Defense Student Loan program of the same acronym.

NSLB: A National Student Loan Bank having the principle features proposed by the Carnegie Council and by the Carnegie Commission before it.

Need analysis: A "means-test" method for estimating the ability of families to pay college expenses.

Need-based aid: Student aid awarded to fill the gap between the "expected family contribution" of a student and the student's costs of attendance.

Noninstructional costs: That part of "costs of attendance" representing room, board, books, supplies, clothing, necessary transportation, and incidentals.

Packaging: The approach to making student aid awards under which several different sources of aid funds are drawn upon in order to provide a student with a total amount of aid equal to the difference between the student's "cost of attendance" and "family contribution."

Sallie Mae (SLMA): The Student Loan Marketing Association, a financial institution chartered by Congress in 1972 to provide lenders in the GSL program with an opportunity to sell GSL loans or to obtain advances by offering such loans as security. Analogous to the Federal National Mortgage Association ("Fannie Mae"); hence the similar acronym.

SEOG: The federal Supplemental Educational Opportunity Grant program, the successor to the former Educational Opportunity Grant (EOG) program, renamed in 1972 to distinguish it from the Basic Educational Opportunity Grant program.

SSIG: The federal State Student Incentive Grant program enacted in 1972 or the "need-based" state scholarship and grant programs that are eligible for federal matching funds under the 1972 legislation.

Work-Study (W-S): The federal Work-Study program that allocates federal funds to colleges and universities to pay 80 percent of the wages of students. Sometimes referred to as *College Work-Study.*

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